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UNCLAS SECTION 01 OF 03 JAKARTA 003130

SIPDIS

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DEPT FOR E - U/S JEFFERY  
DEPT FOR EAP DAS MARCIEL AND EB/IFD DAS DIBBLE  
MCC FOR AMBASSADOR DANILOVICH AND MORFORD  
AID FOR DEPUTY ADMINISTRATOR KUNDER AND ANE WARD  
TREASURY FOR A/S LOWERY  
DEPT PASS USTR FOR SCHWAB

E.O. 12958: N/A

TAGS: [EINV](#) [ECON](#) [KMCA](#) [KCOR](#) [ID](#)

SUBJECT: INDONESIA AND MCC COMPACT ELIGIBILITY

¶1. (SBU) Summary: Indonesia's strong performance on its FY08 MCC indicator scorecard is a testimony to the country's stunning progress of transforming into a modern, free-market, secular and democratic nation that plays a positive and active role in the international community. Recognizing these accomplishments is the right thing to do. We should support and strengthen this transformation through the conveyance of Compact eligibility for technical reasons based on Indonesia's MCC indicator scores and Threshold Program performance as well as our own vital interests promoting democracy and development in the world's largest, Muslim-majority nation. The MCC is the signature development program of the Bush Administration. Helping Indonesia's transformation succeed would be a crowning achievement for this important program. End Summary.

Most Free in Southeast Asia  
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¶2. (U) Indonesia was recently named the "freest country in Southeast Asia" by the Freedom House index, one of the many indicators of Indonesia's progress in the several years. Indonesia ranked as the second best reformer in Asia on the World Bank's "Doing Business 2008" indicators, second only to China. Indeed, Indonesia appears to be an ideal MCC candidate country given its progression from the status of a non-recipient of MCC assistance, to award in November 2006 of the largest MCC Threshold Program (\$55 million), to its current status as a serious contender for MCC Compact eligibility. Based on its FY08 MCC Scorecard, Indonesia passes all three broad MCC categories of Ruling Justly, Investing in People and Economic Freedom. Indonesia's dramatic indicator improvements from last year testify to the GoI's continued robust implementation of serious reforms.

Great Year-on-Year Progress  
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¶3. (U) In FY07, Indonesia passed 9 out of 16 (56%) of the MCC indicators and came up short in seven (44%). Capturing the Government of Indonesia's (GoI) significant achievements, in FY08, Indonesia passed 12 out of 17 (71%) indicators, behind in only five (29%). Significant improvements were made across all three broad categories in a number of indicators, including "Control of Corruption," "Government Effectiveness," "Rule of Law," "Primary Education Expenditures," "Regulatory Quality," and "Fiscal Policy." While Post recognizes that Indonesia scores at exactly but not above the median on its Control of Corruption indicator, Post highlights (and the GoI is keenly aware) that exceeding the median is not mandatory for Compact eligibility and, more importantly, there is

clear, strong momentum and positive results in Indonesia's anti-corruption efforts.

#### Significant Positive Trends

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14. (SBU) There is also a clear trend in indicator improvement, reflecting Indonesia's positive transformation over the years. Since its FY04 Scorecard (the first MCC published Scorecards), Indonesia has made marked improvements, including:

-- Control of Corruption: Moving from the 11th percentile to achieving the median at the 50th percentile;

-- Government Effectiveness: Moving from the 69th to the 82th percentile;

-- Rule of Law: Moving from the 46th to the 54th percentile;

-- Primary Education Expenditures: Moving from the 10th to the 59th percentile; and

-- Regulatory Quality: Moving from the 52th to the 86th percentile.

#### Indonesia Corruption Reform Achieving Results

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15. (SBU) Indonesia is successfully breaking the endemic culture of corruption. The Corruption Eradication Commission (KPK) has successfully pursued the prosecution and conviction of a number of key figures this year, including a governor, a minister, and two mayors. In 2007, the KPK has successfully prosecuted 21 cases as of August 31, six of which involved high-level government officials. The KPK also won cases involving bribery scandals at the Supreme

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Court. The KPK is currently prosecuting a case against a senior Judicial Commission official. These "big fish" cases are symbolically and substantively important: they put Indonesia's dynamic anti-corruption efforts in the public spotlight and put potential corruptors, large and small, on notice that times are changing. Additionally, many of President Yudhoyono's appointments, including the Finance Minister and the Chief of Police are actively and effectively delivering on anti-corruption reforms.

#### Threshold Program Success

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16. (SBU) Through robust cooperation on its two-year, \$55 million MCC Threshold Program, the GoI is demonstrating its strong commitment to the Threshold Program reforms which include ambitious results under the \$35 million anti-corruption component and \$20 million immunization coverage activity. The GoI works closely with USAID Indonesia via the Project Steering Committee to jointly monitor and evaluate project status and ensure activities are contributing to the Threshold Plan goals. The close USG-GoI cooperation on the Threshold Program, including daily interaction with Threshold Program counterparts at the Corruption Eradication Commission; the Financial Transaction Reports and Analysis Center; the Supreme Court; the National Development Planning Agency; and the Ministry of Health, demonstrates to the GoI's commitment and advances its dynamic reform agenda. A separate cable on the Threshold Program is forthcoming.

#### GoI Activism in International Anti-Corruption Efforts

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17. (SBU) On the international stage, Indonesia is taking a high-profile position in its anti-corruption efforts. The KPK has hosted a number of international conferences in 2007, including the ASEAN-Senior Officials Meeting (SOM) Transnational Crime Expert Meeting; the Conflict of Interest International Seminar; the Asset Recovery International Seminar; the Procurement and Bribery International Seminar; and the upcoming International Association of

Anti-Corruption Authorities Conference in November and the Second United Nations Convention on Anti-Corruption (UNCAC) Conference of State Parties in January 2008. Recently, at the September UN General Assembly, President Yudhoyono met with World Bank President Zoellick and embraced the joint World Bank and United Nation's Office of Drugs and Crime newly launched StAR (Stolen Asset Recovery) Initiative, a bold move given the remaining political sensitivities regarding former President Suharto.

#### Funding a Compact and Impacting Development

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18. (SBU) Post appreciates financial considerations related to MCC budget funding, and recognizes that any Compact for Indonesia will be significant given the desired transformative effect on the world's fourth most populous nation. While recognizing that one Compact for Indonesia may financially equal several Compacts for smaller countries, it is imperative to remind ourselves of MCC's mission, namely to reduce global poverty through the promotion of sustainable economic growth.

19. (SBU) The head of the Asia Foundation in Indonesia recently wrote, "That beguiling combination of political democracy and rapid economic growth appears to be within Indonesia's grasp yet the most important problem of all is poverty." Although in 2007 there was a slight reduction in the national poverty rate over previous years, the numbers are daunting: 16.6% (just over 37 million people) live at or below the official poverty line...if those "near" absolute poverty is set at about US\$2 a day then 45%, or over 100 million Indonesians, are poor."

10. (SBU) The combination of the total populations of the top five MCC Compact countries in terms of Compact amounts is only 123 million -- not all of those 123 million live in poverty. The combined Compact amount of those top five is over \$3 billion, less than any anticipated Compact for Indonesia. If MCC wishes to impact the greatest number of poor, reduce global poverty and promote sustainable growth in a bell-weather country -- while still abiding by the technical eligibility criteria -- then Indonesia must be seriously considered for Compact eligibility.

The Time for Compact is Now, under President SBY

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11. (SBU) With the indicators justifying Compact, the MCC Board should be aware of the political importance of Compact-eligibility and its potential impact on supporting President SBY and his reform campaign. With elections in Indonesia scheduled for 2009, Compact eligibility -- even if funds are not yet disbursed -- could support President Susilo Bambang Yudhoyono (SBY), his reform-oriented platform and reform-minded appointments. Post has strong relations with the current GoI administration and is in a position to positively engage in supporting and shaping Compact development. Several key transformative reforms are underway in a relatively early stage, including comprehensive civil service reform, customs and tax reform, and infrastructure development. These would be prime areas in which to engage the GoI via Compact support. If improvements do not come soon, will Indonesians start questioning their enthusiastic embrace of democracy? We request the MCC Board seriously consider Indonesia for Compact eligibility.

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